McGraw-Hill Ryerson Limited

1999 Annual Report






KEEPING THE WORLD UP TO SPEED • KEEPING THE WORLD UP TO SPEED • KEEPING THE WORLD UP TO SPEED • KEEPING THE WORLD UP TO SPEED

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Corporate Profile

McGraw-Hill Ryerson Limited has a long and illustrious history. It is built on the solid foundations of two respected publishing companies — the McGraw-Hill Book Company, currently known as The McGraw-Hill Companies, Inc., and The Ryerson Press.

McGraw-Hill Ryerson publishes and distributes educational and professional products in both print and non-print media. These products are designed to fulfill the individual needs of customers by providing effective and innovative educational and learning solutions. Product offerings include text and professional reference books, multimedia tools, and teaching, assessment, support and monitoring solutions.

The Company is structured on a market-focus basis and operates in four primary market areas:

- Post-secondary education, including universities and community colleges
- Elementary and secondary schools and proprietary colleges
- General interest non-fiction, business, and computer disciplines
- Training and Professional Development

McGraw-Hill Ryerson is operated independently, in close cooperation with various divisions and international subsidiaries of its majority shareholder, The McGraw-Hill Companies, Inc. Through this cooperation, the Company benefits from its access to the significant product, market, and operational expertise of The McGraw-Hill Companies, Inc.

McGraw-Hill Ryerson publishes and distributes under the following highly respected and well-recognized imprints:

Amacom
New York, New York

American Management Association
New York, New York

Berrett-Koehler Publishers
San Francisco, California

Business Week Books
New York, New York

Chenelière McGraw-Hill
Montreal, Quebec

Glencoe/McGraw-Hill
Columbus, Ohio

Harvard Business School Press
Cambridge, Massachusetts

Harvard ManageMentor
Cambridge, Massachusetts

International Marine
Maine

Irwin/McGraw-Hill
Burr Ridge, Illinois

Learning Triangle Press
New York, New York

McGraw-Hill
New York, New York

McGraw-Hill Lifetime Learning
Lexington, Massachusetts

McGraw-Hill Ryerson Limited
Whitby, Ontario

McGraw-Hill Ryerson Limited
Whitby, Ontario

MedMaster, Inc.
Miami, Florida

Open Court
Ohio

Osborne
California

Ragged Mountain Press
Maine

Rockport Publishers
Rockport, Massachusetts

Schaum's
New York, New York

SRA/McGraw-Hill
Columbus, Ohio

Tab
New York, New York

W.I. Publications
San Diego, California

Xebec
Lexington, Massachusetts

Xebec Online
Lexington, Massachusetts

Vision

To be recognized as the leading Canadian publisher of educational resources and information products and services for lifelong learning and enjoyment.

Mission

To be the Canadian leader in developing and marketing quality information products and services to selected educational, professional, and consumer markets through innovation and teamwork. We will provide exceptional value to customers, growth and recognition opportunities for employees, and outstanding financial performance to our shareholders.

Culture

At McGraw-Hill Ryerson, we will work together to:

- strive to exceed our customers' expectations, by recognizing and anticipating their needs
- meet challenging but achievable company objectives and financial goals, with well-planned and clearly communicated strategies
- continually improve McGraw-Hill Ryerson's image in the marketplace, through the promotion of creative ideas and the development of targeted, innovative products
- encourage a winning spirit and a positive working environment, through the development of supportive, appreciative, and rewarding working relationships
- create a market-driven organization
- reward creativity, innovation, and risk-taking
- recognize diversity by treating individuals with respect and dignity

McGraw-Hill Ryerson at a Glance

	KEY MARKETS	PRIMARY PROGRAMS	KEY ISSUES AND TRENDS	OUTLOOK
Higher Education Division	Universities Community Colleges	Business Economics Computer and Information Technologies Science Engineering Humanities Social Sciences	Enrolments are stable. Public policy focus on productivity, quality, and accountability in education. Education funding has stabilized but sources and priorities have shifted in support of technology-enabled learning and administrative productivity. Increased performance and service expectations for technology-based products.	Growing and broadening demand for technology-based learning resources. E-commerce technologies expected to impact traditional distribution channels. Establishing long-term alliances with customers.
School Division	Secondary Schools Elementary Schools Career Colleges	Mathematics Science Social Studies English Information Science Special Education	Very low growth in student enrolment. Flat government spending on education. Focus on requirement to improve standards of academic achievement and accountability. Movement towards centralized curriculum.	Increased focus on accountability. Increased demand for customized products. Growing interest in multimedia products and technological support.
Trade, Professional and Medical Division	Booksellers Distributors Libraries Non-traditional Booksellers Direct to Professionals	Business Computer General Interest Scientific Technical Medical Training	Rapid expansion of book superstores. Demand for technical and professional information in print and electronic formats. Demand for computer titles. Growth in SOHO market. Competition from online retailers.	Increasing purchase power of national accounts. Escalating demand for timely information. Pressure on availability, price, and service caused by the migration to online sourcing and purchasing. Market expansion. Increasing demand for digital versions.
Chenelière/ McGraw-Hill	By publishing under a joint imprint, McGraw-Hill Ryerson Limited and Les Éditions de la Chenelière are able to concurrently publish French and English editions of secondary and post-secondary titles.			

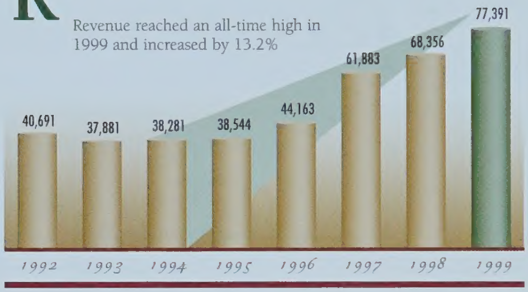
Financial Highlights

(In Thousands of Dollars, except Per Share Data)

	1999	1998	1997	1996	1995	1994
Revenue and Earnings						
Revenue	$ 77,391	$ 68,356	$ 61,883	$ 44,163	$ 38,544	$ 38,281
Net income	$ 5,849	$ 5,207	$ 4,448	$ 1,617	$ 1,622	$ 26
Cash Flow						
Cash provided by (used in) operating activities	$ 12,312	$ 7,305	$ 5,390	$ 7,058	$ 1,959	$ (194)
Capital expenditures	$ 968	$ 541	$ 1,046	$ 496	$ 754	$ 664
Increase/(decrease) in cash position	$ 7,872	$ 4,428	$ 2,419	$ 3,342	$ (569)	$ (5,271)
Closing Financial Position						
Shareholders' equity	$ 46,006	$ 41,155	$ 36,747	$ 32,698	$ 31,480	$ 30,257
Total assets	$ 74,689	$ 62,348	$ 55,005	$ 55,103	$ 48,176	$ 50,843
Per Common Share						
Net earnings (loss)	$ 2.93	$ 2.61	$ 2.23	$ 0.81	$ 0.81	$ (3.67)
Dividends	$ 0.50	$ 0.40	$ 0.20	$ 0.20	$ 0.20	$ 0.15
Book value	$ 23.04	$ 20.61	$ 18.40	$ 16.38	$ 15.76	$ 15.15
Market value at December 31	$ 22.75	$ 22.00	$ 17.50	$ 11.00	$ 8.00	$ 9.00
Financial Ratios						
% Return on average assets	9%	9%	8%	3%	3%	0%
% Return on sales	8%	8%	7%	4%	4%	0%

Revenue ($000)

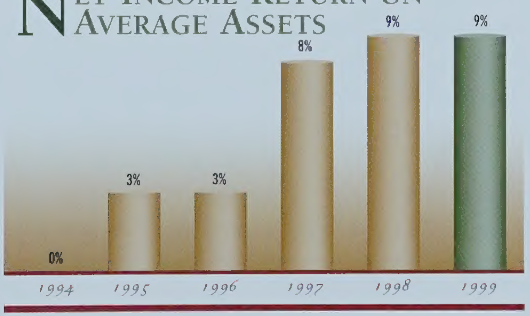
Revenue reached an all-time high in 1999 and increased by 13.2%



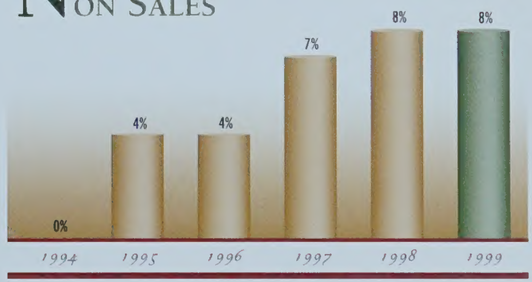
Income from Continuing Operations Before Income Tax ($000)

Income was at an all-time high and increased by 11.9%

Net Income Return on Average Assets



Net Income Return on Sales



Message to the Shareholders

Fiscal 1999 was another outstanding year for our Company in many respects. Despite several years of uncertainty and cutbacks in the public sector, McGraw-Hill Ryerson Limited produced its third consecutive year of record revenues and earnings and continued to improve our place in our respective various markets. Total revenues and earnings in 1999 grew by 13.2% and 12.3% respectively over 1998. Since 1995, revenues have doubled and earnings have grown by 260.6%.

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As we head into the new millennium, there is a renewed sense of urgency in both the public and private sectors to maintain the unparalleled quality of Canadian education and cultural industries. Spending in educational sectors of the economy is once again on the rise, and the number of students embarking on a post-secondary education is forecast to grow by approximately 5% over the next five years.

John D. Dill, President and Chief Executive Officer, and H. Ian Macdonald, Chairman of the Board.

Undoubtedly the primary driver of the Company's success over the last several years has been our consistent focus on transforming the Company into a market-driven entity. We are alert to the needs of our customers in every respect and, accordingly, the quality of our products and services continues to grow. Evidence of this is borne out by significant growth in all our markets.

We are alert to the needs of our customers in every respect.

We have established strong working relationships throughout The McGraw-Hill Companies, Inc., providing us with access to an extensive array of resources and expertise. The effective leverage of these resources and expertise, coupled with the vast capabilities and creativity of every member of McGraw-Hill Ryerson, is a cornerstone of our success.

Our strength and success in the marketplace is a testimony to the quality of our intellectual property. It is appropriate to recognize the incredible contribution of our authors, who rank among the brightest and most highly recognized of Canadian educators and academics. In

addition, we would like to thank our customers, teachers, reviewers, and students for their suggestions on how to constantly improve our products.

The digital economy has presented tremendous opportunities and challenges to McGraw-Hill Ryerson. The vast majority of our educational products now encompass digital components, and the service areas of the business have been relentless in embracing new technologies to improve the customer experience. The Company sees e-business as a means to expand the size of our customer base, increase the formats in which our products are presented, and enhance our levels of service and efficiency.

The sustained strength of the Canadian economy is an indicator of even more positive times to come. Encouraging growth rates, reduction in unemployment, and an increase in the overall size of the labour market all bode well for the future.

In closing, we would like to commend each and every member of McGraw-Hill Ryerson for having worked tirelessly to transform the Company into a market leader and for having embraced change during challenging times. These qualities have positioned the Company admirably to face the future.

H. Ian Macdonald, O.C., LL.D., D.UNIV., D.LITT.
Chairman of the Board of Directors

John D. Dill
President and Chief Executive Officer

Corporate Governance

A primary concern of the Corporation's Board of Directors has been, and will continue to be, the effective governance of McGraw-Hill Ryerson Limited on behalf of shareholders. The Corporation's Corporate Governance Committee meets regularly to review corporate governance matters. A review of the Corporation's governance policies begins on page 8 of the Management Information Circular that accompanies this Annual Report.

Higher Education Division

Sales Growth

In 1999, the McGraw-Hill Ryerson Higher Education Division continued to generate momentum and distinguish itself as a formidable player within the Higher Education market segment (based on Canadian Publishers Council 1999 year-end statistics). Overall the Division achieved a 6% sales increase over prior year and increased market share (based on Canadian Publishers Council 1999 year-end statistics). Sales of imported product exceeded plan by 17% and sales of Canadian product achieved an increase of 9% over the prior year. The Higher Education Division believes its efforts to strengthen its sales, marketing, and editorial teams combined with its effective media technology programs, and the establishment of a number of key alliances and service initiatives contributed to its success. Service excellence is a key part of the Division's overall strategy. This year, the Higher Education Division's mission to provide the best service in the industry was recognized by Canadian booksellers. In fall 1999, McGraw-Hill Ryerson was the recipient of the Western College Stores Association Service Excellence Award—the first time an educational publisher has won this award in many years.

The Division is also investing in technologies that will help to improve its business processes.

Leading Technology Solutions

Media technology is central to the Division's product development, sales, and marketing strategies. In 1999, the market seemed more ready than ever before to adopt course-management technologies and consider alternative delivery modes for learning material. PageOut, Higher Education's own course Web site and course-management product, now has over 1,000 Canadian registered users. By mid-1999, all Canadian titles were accompanied by a text Web site and all key titles included an Online Learning Centre.

In addition to leveraging technology in the product development area, the Division is also investing in technologies that will help to improve its business processes and enhance customer relationship management. A number of initiatives were launched in 1999, including a new state of the art sales force automation and sampling system plus OSCAR, the bookseller's Web-based order status inquiry system.

Signings overall exceeded the Division's goal in 1999.

Canadian Publishing Program

Though sales growth overall was strong, 1999 represented a year of both successes and disappointments for the Canadian publishing program. Marketing, management, finance, and the softside lists performed extremely well; however, the accounting and economics programs both lost market share with the introduction of new competitors in the marketplace. The Higher Education Division had strong performance from its first editions this year, including *Intermediate Accounting* by Beechy/Conrod, which tripled its sales forecast, and *Psychology* by Wortman/Loftus/Weaver/Atkinson, which achieved 124% of its goal. In addition, many of the revisions also exceeded sales goals, including Shapiro's *Marketing* (119%) and Ross' *Fundamentals of Corporate Finance* (142%).

Several members of the Division's editorial team were recognized by the International Publishing Group of The McGraw-Hill Companies, Inc. and received a number of awards, including International Editor of the Year, Best Local Product, and Best Revision.

Signings overall exceeded the Division's goal in 1999. They included several first editions, an indication of McGraw-Hill Ryerson's continued commitment to grow the Canadian publishing program.

Business Uncertainties

The introduction of online textbook retailers has the potential to create uncertainty regarding appropriate inventory levels, returns forecasts, and appropriate sales recognition. The Division will be monitoring and working closely with these organizations to accurately capture sales and customer information as well as interpret the potential impact on inventory and returns rates.

OUTLOOK

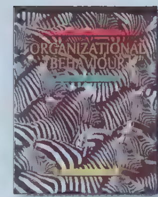
The Higher Education Division expects enrolment growth in some provinces and an increasing demand for course-management applications and digital content in 2000. Continued progress is also expected in the development of the industry's e-commerce distribution channel by both new retailers and traditional booksellers. The Division believes e-marketing will become more prevalent. As a result, the Division is significantly increasing its investment in technology and e-marketing and e-commerce skills for 2000.

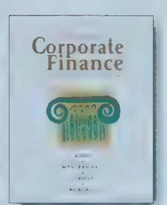
Moving into 2000, the Division anticipates all Canadian book titles will also be available in WebCT digital format. The Division also anticipates that selected titles will be available in other digital formats, including Blackboard. In addition, the Division has several e-books under development and has laid the foundation for launching its e-commerce capabilities and strategy in early 2000.

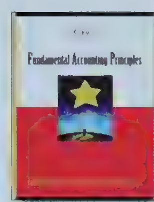
The Division's medium-term goals are to grow at a faster rate than the industry and to strive to be recognized as the best higher education work environment in the industry, particularly for hard-working, technologically-savvy, and creative individuals looking to grow professionally.

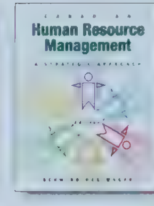
The best-selling titles for the Higher Education Division in 1999 were as follows:

1. *McShane,* Canadian Organizational Behaviour, *Third Edition*
2. *Ross/Westerfield/Jordan/Roberts,* Fundamentals of Corporate Finance, *Third Canadian Edition*
3. *Larson/Wild/Chiappetta/Nelson/Carroll/Zin,* Fundamental Accounting Principles, *Volume 1, Ninth Canadian Edition*
4. *Shapiro/Perreault/McCarthy,* Basic Marketing: A Global Managerial Approach, *Ninth Canadian Edition*
5. *Garrison/Noreen/Chesley/Carroll,* Managerial Accounting: Concepts for Planning, Control, Decision Making, *Fourth Canadian Edition*
6. *Schwind/Das/Wagar,* Canadian Human Resource Management, *Fifth Edition*







School Divsion

Sales Growth

The School Division enjoyed another successful year in 1999 largely because of the $30 million investment in textbooks by the Ontario Ministry of Education and Training to support the implementation of new Grade 9 curriculum in Science, Mathematics, Language Arts, and Geography. The School Division captured approximately 60% of the Grade 9 science market with SCIENCEPOWER™ 9. The Division's success was not limited to the Ontario market. MATHPOWER™ 12, Western Edition, was adopted by 35% of the Alberta market, a market share that was previously held by one other school publisher. The Open Court [illegible] continued to benefit from an ongoing focus on early literacy resulting in a 57% increase in sales. The Glencoe and Science Research Associates (SRA) lines also continued to perform strongly and have effectively diversified the Division's product offerings.

The School Division is poised to compete with new Canadian titles in five of the seven new Grade 10 courses in Ontario.

Leading Educational Solutions

The School Division continued to invest in market research during 1999; this included focus groups, quantitative surveys, advisory boards, and interviews. Research results have significantly influenced the Division's publishing program and sales/marketing strategies for 1999 and 2000. The 1999 objective to work closely with Chenelière/McGraw-Hill to concurrently publish products in both English and French was realized with the publication of *OMNI-SCIENCES* 7–9 as well as *OMNIMATHS* 9. The Company's ongoing ability to present products in both official languages is projected to create a distinctive long-term competitive advantage. The Division will continue to implement this strategy in 2000 with the concurrent publication of five additional titles.

The Division will continue to build on the strength of its high school science and mathematics list.

Business Uncertainties

While funding remains stable in Western and Atlantic Canada, curriculum implementation timelines — particularly for grades 7–10 science in Atlantic Canada — are in a state of flux. In 1999, the Ontario Ministry of Education and Training announced a $30 million investment in textbooks to support implementation of the new Grade 10 curriculum in the 2000–2001 school year. While this funding stability presents tremendous opportunity, spending allocation across seven courses in five different subject areas represents the most significant variable. The School Division is poised to compete with new Canadian titles in five of the seven courses.

Canadian Publishing Program

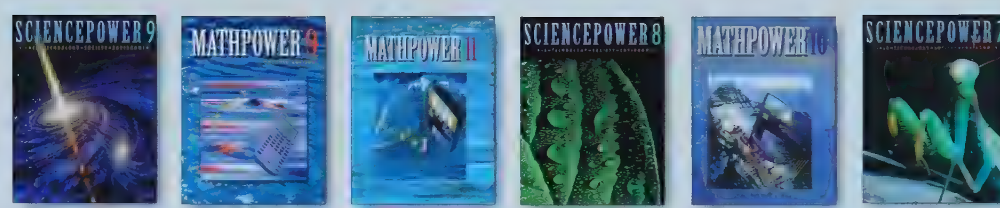
In 2000, the School Division is entering the grades 7 and 8 history market for the first time with *Canada: The Story of Our Heritage* (Grade 7) and *Canada: The Story of a Developing Nation* (Grade 8), published for Ontario's new elementary curriculum. The Division will continue to build on the strength of its high school science and mathematics list with the publication of *SCIENCEPOWER™* 10, Ontario Edition; *MATHPOWER™* 12, Western Edition; *MATHPOWER™* 10, Ontario Edition; and *Mathematics: Applying the Concepts* 10. The Division's historically strong social studies and history list will be revitalized with the publication of *Canada: A Nation Unfolding*, Ontario Edition; *Civics: Participating in a Democratic Society;* and *Horizons 2000+:Career Studies*, Ontario Edition. Market research and editorial work in 2000 will focus on developing resources for senior high school science, mathematics, and social studies/history to prepare for Ontario curriculum implementation in 2001–2003.

OUTLOOK

Enrolment in the school market is expected to remain stable in 2000. The School Division expects to maintain its revenue growth through the completion of SCIENCEPOWER™ 7–10, Ontario Edition, MATHPOWER™ 10–12, Western Edition, MATHPOWER™ 9–10 Ontario Edition, and the launch of five new social studies/history titles.

The best-selling titles in the School Division in 1999 were as follows:

1. *Wolfe/Clancy/Jasper/Lindenberg/Lynn/Mustoe/Smythe, SCIENCEPOWER™ 9*
2. *Knill/Baxter/Dottori/Fawcett/Forest/Hamilton/Pasko/Traini/Webb, MATHPOWER™ 9, Ontario Edition, Second Edition*
3. *Knill/Ablett/Ballheim/Carter/Collins/Conrad/Donnelly/Hamilton/Miller/Sarna/Wardrop, MATHPOWER™ 11, Western Edition*
4. *Clancy/Edwards/Grace/[illegible]/Platt, SCIENCEPOWER™ 8*
5. *Knill/Ablett/Ballheim/Carter/Collins/Conrad/Donnelly/Hamilton/Miller/Sarna/Wardrop, MATHPOWER™ 10, Western Edition*
6. *Galbraith/Gue/Bullard/Bullard/Clancy/Riddell, SCIENCEPOWER™ 7*



Trade Professional and Medical Division

Sales Growth

In 1999, the Trade, Professional and Medical Division posted double digit revenue growth for the sixth consecutive year as the trade book market remained red-hot. This translated into a 55% increase in the bottom line. The success of Canadian online book retailers, the continued rollout of superstores across Canada, and the execution of targeted marketing programs were key contributors to the remarkable market performance as was the soaring Canadian economy. The Trade business saw a revenue increase of 37% over the prior year, surpassing industry-reported statistics of 18%.

This year saw McGraw-Hill's Day Trading books first to market, and they fuelled the enormous growth in the business and investing category. As well, sales in the computing category doubled.

In 1999, the Trade, Professional and Medical Division benefited from The McGraw-Hill Companies, Inc.'s acquisition of the respected Appleton & Lange medical list, which effectively doubled the Division's medical list and revenues.

Building on the success of the Canadian publishing program and expanding the Division's business book program to meet the Canadian consumer's business needs were other key initiatives, while the Division delivered several bestsellers on management subjects.

· Division posted ıble-digit revenue growth for the sixth conseccutive year.

Product Development

The Division has invested in online market research that will be completed by the end of the first quarter 2000. This will allow the customization of direct marketing efforts to the market's priorities over the next two years.

Business Uncertainties

The emergence of the wholesaler Pegasus, majority-owned by Chapters, and their role in the Canadian publishing industry in 1999 introduced some uncertainty into the Division's market and increased its focus on one customer.

Canadians are increasingly buying books online.

Canadians are increasingly buying books online—from both Canadian and global online retailers. Despite copyright and territory restrictions, it will be virtually impossible to protect Canadian territory rights with the proliferation of global online retailers.

Canadian Publishing Program

In 1999, the Division focused on the management, small business, training, and personal finance categories—twenty titles were published. The frontlist exceeded the previous year by 18% and the average revenue per title increased by 20% over 1998.

Two of the Trade, Professional and Medical Division's Canadian bestsellers in the management category highlighted Canadian business success stories: *Power Retail: Winning Strategies from Chapters and other Leading Retailers in Canada*, by Lawrence Stevenson, Joseph Shlesinger, and Michael Pearce and *The Mavericks: Lessons from the West's Winning Entrepreneurs,* by Paul Grescoe.

With the goal of leveraging the Company's intellectual property, the Division continued to secure both electronic rights agreements and translation rights. As examples, Intuit Canada Limited licensed several of the Division's titles that were bundled with its own product, and translation rights were granted for the Japanese translation of The *Value Enterprise* by Richard Tully, John Donovan, and Brent Wortman.

Building on McGraw-Hill's strengths in the global marketplace, this Division continued to focus on publishing titles with international sales potential. In 1999, the training titles were particularly well received; for example, *Quality Standards for Evaluating Multimedia and Online Training,* by Lynnette Gillis, received an endorsement from the ASTD (American Society of Training and Development).

Outlook

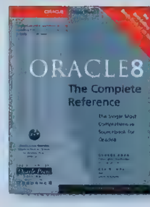
Fiscal 2000 promises to be another challenging and rewarding year. There will likely be a decrease in the rate of Canadian superstore openings and a continued increase in online book purchases in both print and digital formats. In any event, customers will have more purchase options and power than ever before.

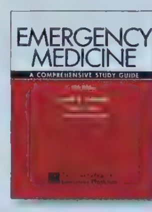
In 2000, the Trade, Professional and Medical Division plans to improve their presence in the market and improve profitability through the following initiatives:

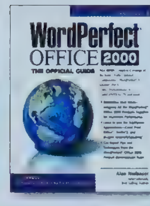
- *Continuing to invest in strategic computer and business book marketing;*
- *Implementing a Web marketing plan;*
- *Selectively increasing the number of the Division's alliances to fully meet customers' needs.*

Some of the best-selling titles in the Trade, Professional and Medical Division were as follows:

1. *Stevenson/Shlesinger/Pearce,* Power Retail: Winning Strategies from Chapters and other Leading Retailers in Canada
2. *Koch,* Oracle 8 Complete Reference
3. *Tintinalli,* Emergency Medicine, *Fifth Edition*
4. *Neibauer,* WordPerfect Office 2000: The Office Guide
5. *Nassar,* How to Get Started in Electronic Day Trading
6. *Pine/Gilmore,* The Experience Economy: Work is Theatre and Every Business a Stage







Chenelière/McGraw-Hill

McGraw-Hill Ryerson Limited and, subsequently, Chenelière/McGraw-Hill have been publishing Higher Education titles for Québec and for French-language colleges and universities throughout Canada since 1965. Its titles are market leaders in accounting, management, marketing, science, humanities, social studies, math, and computer sciences. Its 1999 list included over 150 active titles. While many of its titles are indigenous works, approximately 40% are translations and adaptations of American and Canadian works.

Following an alliance established in 1995 between Les Editions de la Chenelière (DLC), McGraw-Hill Ryerson Limited, and The McGraw-Hill Companies, Inc., "DLC," a non related, privately-held, independent company based in Montreal, publishes French-language products under the joint Chenelière/McGraw-Hill imprint.

Sales History and Growth

Chenelière/McGraw-Hill has structured its publishing program to meet the needs of French-speaking students and educators across Canada. With a full-time complement of sixty employees, DLC publishes and translates resources for grades K–12 as well as college and university. Thirty school titles per year, as well a dozen Higher Education titles, are marketed in Québec and across Canada. Through co-publishing and distribution agreements with European publishers DLC's Higher Education titles are also available in France, Belgium, and Switzerland.

Chenelière/McGraw-Hill also markets American Higher Education titles from McGraw-Hill Higher Education (MHHE) as well as McGraw-Hill Ryerson titles to French-language institutions in Québec and New Brunswick. More recently, Chenelière/McGraw-Hill has begun marketing the new medical list and the Schaum series, published in Europe by various McGraw-Hill operations. DLC's fully bilingual order desk, located in Montreal, handles all customer service activities. Fulfillment services are provided by McGraw-Hill Ryerson's facility in Whitby.

Publishing resources ... adapted to the needs of the Francophone and French-immersion markets.

Leading Educational Solutions

Starting with publishing for the Québec school market, Chenelière/McGraw-Hill has adopted a decidedly Canadian perspective over the years by publishing resources specifically adapted to the needs of the Francophone and French-immersion markets across Canada.

The latest project, an ambitious collaboration with McGraw-Hill Ryerson's School Division, involves a Canadian first: a team of eighteen people assembled to publish McGraw-Hill Ryerson's new science program *SCIENCEPOWER™* 7–10 simultaneously in French and English. This bilingual team, working in close collaboration between Montreal and Whitby, achieved its first important milestone: the publication of *OMNISCIENCES* 9 in time for the implementation of the new Ontario curriculum.

Business Uncertainties

With fewer than one million French-speaking students enrolled in colleges and universities in Canada, Chenelière/McGraw-Hill is working in a very competitive market. Looking abroad for other sources of revenue is very important. Accordingly, Chenelière/McGraw-Hill has maintained an alliance with Ediscience International in Paris, GM Diffusion in Switzerland, and Context Edition in Belgium. Chenelière/McGraw-Hill has a history of co-publishing many titles with prestigious French publishers such as Maloine, Dunod, Masson, Lamarre; these titles have been translated into Portuguese, Finnish, and Spanish. To maintain its international market presence, Chenelière/McGraw-Hill will continue to look for titles that appeal to the European marketplace.

Outlook

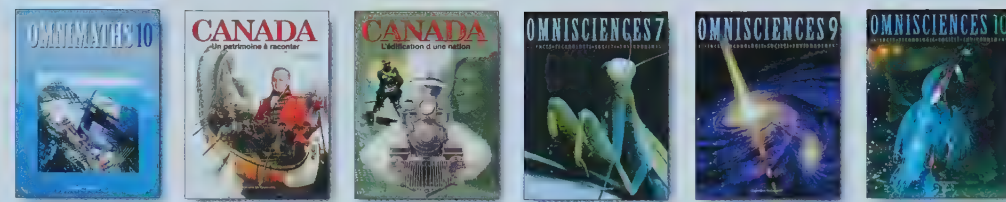
In the School market, Chenelière/McGraw-Hill will build on the collaboration of the Montreal and Whitby offices by providing SCIENCEPOWER™/OMNISCIENCES products for Grade 10 for September 2000 in time for the implementation of the new Pan Canadian Science Framework in the Atlantic provinces. As well, the MATHPOWER™ series is currently being translated into French. MATHPOWER™ 10, Western Edition, was published in May 1999 and will be used in every French language and French-immersion school in the four western provinces and the territories.

Chenelière/McGraw-Hill will add twelve Higher Education-level titles to its active frontlist of 150 during 2000. The alliances with McGraw-Hill Higher Education and McGraw-Hill Ryerson Higher Education Division are mutually beneficial since translation of existing textbooks is a very important component of Chenelière/McGraw-Hill's publishing plan.

This year, Chenelière/McGraw-Hill will publish McGraw-Hill Ryerson's Ross, Fundamentals of Corporate Finance, Third Canadian Edition. This Canadian edition allows Chenelière/McGraw-Hill to publish a fully-adapted French-Canadian edition of a best-selling book.

Chenelière/McGraw-Hill also works closely with McGraw-Hill International Rights in New York. Some of the titles to be published in the next year are:

1. *O'Brien*, Introduction to Information Management, *Ninth Edition*
2. *Stevenson*, Production/Operations Management, *Sixth Edition*
3. *Norton*, Tutorials, *Second French Edition*
4. *O'Leary*, Computing Essentials, *Fourth French Edition*



Value-added Support

999. EDP over- the production of ew titles and prints.

Editorial, Design, and Production Department

McGraw-Hill Ryerson's Editorial, Design, and Production (EDP) Department provides project management, financial analysis, and technical production and manufacturing services to the Editorial Divisions. In 1999, EDP oversaw the production of 178 new titles and 216 reprints. The Department is organized along divisional lines, providing support for the Higher Education, School, and Trade divisions. Budgets are set based on preliminary planning sessions with Editorial and Marketing to determine end-product specifications and schedules. Once the development process is complete, the project is handed over to Production. Strict adherence to established budgets and timelines is stressed throughout the production process.

Business alliances with key vendors allow for competitive pricing and ensure the highest quality of materials for McGraw-Hill Ryerson's products. These alliances help to guarantee the timely delivery of products to the Company's warehouse for distribution to customers. In addition, a close working relationship with its parent company provides McGraw-Hill Ryerson with the opportunity to leverage the buying powers and established best practices of a multi-billion dollar corporation.

The Customer Satisfaction Division . . . embarked on a series of Quality Standard Initiatives.

Customer Satisfaction Division

Building on the strength of prior years, the Customer Satisfaction Division, comprising the Customer Service, Inventory, and Warehouse departments, embarked on a series of Quality Standard Initiatives. These initiatives focused on reviewing and improving methods of work performance to guarantee a high level of service to customers.

In Customer Service, programs such as call monitoring, EDI/Web services, final response on first contact, customer surveys, and scripting were undertaken to enhance and simplify the customer's experience in conducting business with McGraw-Hill Ryerson. As well, the automation of manual processes maximized the value added for customers in the performance of daily functions in the Inventory Group. This included data maintenance functions, nightly back order generation, expediting, and access/query analysis.

Finally, in the Warehouse sector, where quality is dependent upon the timely and accurate receipt of products and processing of orders, initiatives were undertaken in quality of shipment testing, enhanced tracking, performance monitoring, and flow analysis.

These initiatives, now completed, have raised the standard of internal performance, yielding a service level that meets or exceeds customers' expectations.

Human Resources

During the year, McGraw-Hill Ryerson reinforced commitments to its culture and values through compensation/reward programs and employee development and assistance programs.

A new IS&T strategic direction has been developed to ensure appropriate technology solutions to support key business strategies

The Company has made significant gains in improving various aspects of its compensation programs. In February 1998, the first bonus payment was paid to all employees who were not on an individual incentive plan to allow employees to share in the Company's improved performance as a result of their efforts. The Company pursued this with second and third consecutive payouts in 1999 and 2000.

Information Systems and Technology (IS&T)

With the successful completion of the Year 2000 strategy, the Company's IS&T team has concentrated on enhancing and improving the information systems relied upon by its employees, partners, and customers. A new IS&T strategic direction has been developed to ensure appropriate technology solutions to support key business strategies, to keep IS&T staff current in core competencies, and to capitalize on new technologies supported by a robust and flexible infrastructure.

Internet Applications

1999 was a key year for development and growth in the virtual world for all of McGraw-Hill Ryerson's businesses. The development of a holistic approach to Web site strategy development supports the Company's firm commitment to harness and capitalize internal data management. Wherever possible, the Company's strategies are explicit on supporting new functions with automated systems and integrating them directly into our workflow.

Significant new site launches enhanced McGraw-Hill Ryerson's Web presence in its core target markets. Plans are already underway for their 2000 expansion.

The Company continued its successful Web-Enhanced Book program with the launch of several new sites. A completely new strategy has been developed for the Trade, Professional and Medical Division, which will be revealed in the 2000 launch of their core site.

The Higher Education Division's publishing program was supported by the launch of The Web Communities, a forum for faculty to obtain and share key resources relating directly to their McGraw-Hill Ryerson text adoptions.

Management's Discussion and Analysis

Financial Results (In Thousands of Dollars)

	1999	1998	1997	1996	1995	1994
Net sales	**75,992**	66,732	60,920	42,986	37,810	37,673
% increase	**13.9%**	9.5%	41.7%	13.7%	0.4%	1.6%
Higher Education sales	**46.7%**	50.3%	53.4%	43.9%	45.4%	53.0%
School sales	**28.4%**	28.0%	26.1%	30.8%	29.8%	27.0%
Trade, Professional and Medical sales	**24.9%**	21.7%	20.5%	25.3%	24.8%	20.0%
Imported product sales	**56.4%**	56.3%	58.5%	54.7%	53.6%	46.5%
Canadian & adaptations sales	**36.9%**	37.9%	36.7%	38.7%	38.4%	46.6%
Agency sales	**6.7%**	5.7%	4.8%	6.6%	8.0%	6.9%
Total expenses	**66,924**	58,999	54,072	41,154	36,450	38,237
% of net sales	**88.1%**	88.4%	88.8%	95.7%	96.4%	101.5%
Net income	**5,849**	5,207	4,448	1,617	1,622	26
% of net sales	**7.7%**	7.8%	7.3%	3.8%	4.2%	0.0%
Total assets	**74,689**	62,348	55,005	55,103	48,176	50,843
Return on assets %	**7.8%**	8.4%	8.1%	2.9%	3.3%	0.0%

Revenue

The Company continued to set record revenue levels in 1999, increasing by 13.9% to $76.0 million. The previous record high of $66.7 million was set in 1998. Once again, the organization experienced solid growth with Higher Education sales continuing a steady trend by increasing 5.7% to $35.5 million; School sales continuing double-digit improvement by increasing 15.5% to $21.6 million; and Trade, Professional and Medical sales increasing by 30.8% to $18.9 million.

The post-secondary market continued to be constrained by several factors, including increasing education costs and the perceived high cost of text materials. These factors restrained the growth in revenues to a modest though consistent level. Focused provincial funding initiatives, primarily in Ontario, continued to fuel strong increases in sales in the School market. The addition of the Appleton & Lange medical line, explosive growth in our computing product line, and ongoing rapid growth in online purchasing and superstores led to an important increase in Trade, Professional and Medical sales.

The Company continued to set record revenue levels in 1999

Sales of Canadian original and adapted titles declined to 36.9% of total sales versus 37.9% in 1998, while sales of agency titles increased to 6.7% from 5.7% and sales of titles imported from The McGraw-Hill Companies, Inc. increased slightly from 56.3% to 56.4%. This change in sales mix reflects the extremely high growth experienced in the Trade, Professional and Medical Division, which includes a high proportion of agency sales.

Expenses

Total expenses increased by 13.4% to $66.9 million from $59.0 million in 1998. Total expenses as a percentage of operating revenue continued to decline, dropping from 88.4% in 1998 to 88.1% in 1999.

Operating expenses, comprising cost of product and royalties, increased by 13.7 % to $38.2 million from $33.6 million in 1998 in proportion with the increase in sales. Editorial, selling, general and administrative expenses increased to 33.5% of sales or $25.5 million. This compares with 33.2% or $21.5 million in 1998, reflecting the concerted expansion of the local publishing programs in both the Higher Education and School Divisions

Amortization of prepublication costs increased 7.7% to $2.2 million from $2.0 million reflecting the continued growth in the Canadian publication programs. Depreciation expense dropped by 10% to $1.3 million as the Company continued to benefit from assets reaching the end of their amortization periods before requiring replacement.

As the Canadian dollar strengthened throughout the year, the Company experienced a foreign exchange gain of $0.4 million in comparison with an exchange loss of $0.2 million experienced in 1998. Interest income and expense were unchanged over 1998 at a net expense of $0.1 million.

Liquidity and Financial Resources (In Thousands of Dollars)

	1999	1998	1997	1996	1995	1994
Cash / (Bank indebtedness)	**16,253**	8,381	3,953	1,534	(1,808)	(1,239)
Cash flow from operations	**12,312**	7,305	5,390	7,058	1,959	(194)
Prepublication investment	**2,474**	1,537	1,526	2,821	1,530	2,133
Capital asset additions	**968**	541	1,046	496	754	664
Total assets	**74,689**	62,348	55,005	55,103	48,176	50,843
Working capital	**26,122**	21,831	16,614	11,595	10,871	7,856
Accounts receivable	**15,788**	13,343	8,497	9,153	6,134	7,854
Inventory	**15,650**	11,440	13,270	13,377	11,885	11,223

The rate of income tax provision remained relatively constant, declining only slightly to 44.1% from 44.4% in the prior year.

Cash once again ended the year dramatically up from the prior year. The Company experienced a 93.9% increase to $16.3 million from an ending 1998 balance of $8.4 million. Continued strong operating results combined with controlled capital investment and aggressive working capital management has enabled the Company to generate cash flow in excess of net income after dividend distribution.

Inventory levels rose by 36.8% in 1999. This reflects:

- The overall increase in business volume and the corresponding requirement to hold larger inventories.
- A significant increase in publication activity and, accordingly, prepublication expenditure relating to titles scheduled for publication in 2000 and beyond. For reasons of prudence, until such time as titles are published, prepublication expenditures are reflected as a current asset.

Levels of saleable inventory reflected a consistent number of months' supply on hand in 1999 and 1998.

Accounts Receivable increased by 18.3%. This resulted from the rapid sales increase experienced during the year, especially in the Trade, Professional and Medical markets, which tend to experience slower payment cycles. The Company's collection performance is closely monitored in accordance with credit terms and industry standards.

The entry by the School Division into new areas accounted for the bulk of the 59.5% increase in prepublication costs.

Capital asset purchases of $1.0 million relate to furniture and technology equipment purchases. The purchase of office equipment related to a process of maximizing office space utilization while the purchase of technology equipment was in line with a drive to utilize emerging technologies to increase efficiencies.

For reasons reviewed above, the Company's balance sheet has shown significant improvement during the current year. Improved cash flow and strengthened asset management has resulted in enhanced liquidity and non-cash asset turnover improved to 1.32 from 1.27

Lifelong Learning

During 1999 the Lifelong Learning Marketing Group made solid progress in expanding its sales base, which grew 93% over the prior year to $635,000. At the end of the year the operations of the Group were closely reviewed to ensure that it was structured in a suitably robust manner in which to compete effectively in the marketplace. Following this review, it became apparent that a more appropriate alternative would be to align the Group with the operations of The McGraw-Hill Companies' Lifetime Learning unit based in Boston, Massachusetts. In accordance with negotiations between McGraw-Hill Ryerson Limited and The McGraw-Hill Companies, Inc., a lump sum settlement has been made to compensate McGraw-Hill Ryerson for prior investments made in establishing the Canadian sales base.

Under the new structure, with close alignment and market support from an established American participant, it is felt that the Canadian operations will ultimately have the greatest chance of significant market penetration. On an ongoing basis, McGraw-Hill Ryerson will provide administrative services to the Lifetime Learning Division for its Canadian operations on a fee-for-service basis.

Risks and Uncertainties

Educational Funding Constraints

Recent funding cuts by both federal and provincial governments to all forms of educational institutions have presented a major hurdle to the Canadian publishing industry over the last several years. In an effort to meet deficit-reduction targets, both levels of government focused on significant spending cuts resulting in higher tuition fees, down-sized faculty, increased instances of photocopying, and reduced text-book purchases.

To overcome the impact of public funding reductions, the Company has made great strides in researching, developing, and marketing innovative learning resources. These resources meet specific learning needs of students while reducing the number of required teacher-contact hours.

In 1998, educational funding stabilized and, in some provinces, increased over the prior year. Based on the federal budget surplus, the Company is anticipating a third year of stable educational funding in 2000.

Format and Delivery of Future Learning Resources

The advent of new media is affecting the publishing industry in several ways: sales of non-print materials have begun to increase as a percentage of total sales; competition is appearing from non-traditional publishers, such as high-technology firms; and, most importantly, the format of future learning resources remains uncertain. In response to these evolving technology changes, all of the Company's divisions are developing innovative non-print products. Further investment into this market will be dependent on demand, cost, revenue management and the acceptance of new technology by our customers.

Competition from Foreign-Based Online Bookstores

The advent of online bookstores in the United States has created an avenue for Canadian consumers and students to purchase published product directly from foreign retailers, thus eliminating the Canadian marketers and distributors of the product. In particular, students will be capable of accessing a very large source of second-hand product not previously experienced in Canada. Canadian online bookstores, on the other hand, have proven to be effective retailers of McGraw-Hill Ryerson product and the Company is aggressively pursuing this market segment.

Dependency on Superstores

Over the last three years the book-retailing climate in Canada has changed noticeably with the dramatic expansion of the Chapters and Indigo chains and the recent formation of Pegasus. While these entities account for less than 25% of McGraw-Hill Ryerson's total business, they are exerting increasing influence in the marketplace.

Foreign Exchange

A significant portion of the Company's purchases is incurred in US dollars. As a result, major exchange-rate fluctuations between the Canadian and US dollars will either positively or negatively affect net income.

	1997	1998	1999				
	Dec. 31	Dec 31	Jan. 1	Mar. 31	June 30	Sept. 30	Dec. 31
Exchange Rate	0.699	0.652	0.655	0.663	0.677	0.682	0.693

The Company prudently uses hedging products to reduce the risks associated with currency-rate fluctuations and does not speculate in the market. The Company uses zero-cost range forward contracts that fix the transaction rate to a specific trading range.

Outlook

During 1999, McGraw-Hill Ryerson continued to capitalize on the business and operational foundations laid in recent years. With a significantly improved local publishing program, an increased array of imported product, and strengthened sales and marketing capabilities, the Company achieved attractive sales growth.

The Company has made important studies to achieve a common strategic focus. Sales, marketing, editorial, production, warehouse and fulfillment, customer satisfaction, finance, technology, and human resource functions are all working in concert to create an improved operation.

Fiscal 2000 is projected to be a stable year in which the Company leverages its competitiveness to sustain its recent revenue growth rates. McGraw-Hill Ryerson will benefit from the expansion of its product offerings into discipline areas in which it has not previously had a presence. This has been a necessary but expensive proposition.

The marketplace is still faced with extreme uncertainty. Funding availability, product format, and delivery methods are all subject to considerable change. To meet these challenges, McGraw-Hill Ryerson continues to invest in people and technology. Our goal is to meet the informational needs of our customers by developing innovative educational solutions, providing unparalleled customer satisfaction, and fully utilizing the vast array of resources of The McGraw-Hill Companies, Inc.

Management Report

To the Shareholders of McGraw-Hill Ryerson Limited

The financial statements and all the information in this Annual Report were prepared by the management of McGraw-Hill Ryerson Limited, which is responsible for their integrity and objectivity.

These financial statements—prepared in conformity with appropriately chosen, generally accepted accounting principles, and including amounts based on management's best estimates and judgements—present fairly McGraw-Hill Ryerson's financial condition and the results of the Company's operations. Other financial information given in this report is consistent with these financial statements.

McGraw-Hill Ryerson's management maintains a system of internal accounting controls designed to provide reasonable assurance that the financial records accurately reflect the Company's operations and that the Company's assets are protected against loss. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of these controls should not exceed the expected benefits in maintaining these controls. These controls further assure the quality of the financial records in several ways: the careful selection and training of management personnel; maintaining an organizational structure that provides an appropriate division of financial responsibilities; and communicating financial and other relevant policies through the Corporation.

The financial statements in this report have been audited by Ernst & Young LLP, Chartered Accountants, in accordance with generally accepted auditing standards. The independent accountants were retained to express an opinion on the financial statements, which appears on page 24.

McGraw-Hill Ryerson's Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, which meets periodically with management and the independent accountants to ensure that each group is carrying out its respective responsibilities. In addition, the independent accountants have full and free access to the Audit Committee and meet with it with no representatives from management present.

John D. Dill
President and Chief Executive Officer

Gary A. Krikler, C.A., M.B.A.
Executive Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of McGraw-Hill Ryerson Limited

We have audited the balance sheets of McGraw-Hill Ryerson Limited as at December 31, 1999 and 1998, and the statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
January 14, 2000

Balance Sheets

(In Thousands of Dollars)

As at December 31	1999	1998	1997
Assets			
Current			
Cash	$16,253	$ 8,381	$ 3,953
Accounts receivable (net of allowance for book returns 1999—$3,374, 1998—$3,200, 1997—$3,398)(note8)	15,788	13,343	8,497
Due from affiliated companies (note 2)	2,694	4,561	3,352
Inventories	15,650	11,440	13,270
Prepaid expenses and other	710	943	830
Deferred income taxes	1,245	1,260	1,260
Total current assets	52,340	39,928	31,162
Capital assets, net (note 3)	19,791	20,135	21,050
Other assets, net (note 4)	2,558	2,285	2,793
	$74,689	$62,348	$55,005
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued charges	7,981	6,005	5,100
Income taxes payable	1,897	438	1,766
Due to affiliated companies (note 2)	16,340	11,654	7,682
Total current liabilities	26,218	18,097	14,548
Deferred income taxes	2,465	3,096	3,710
Shareholders' Equity			
Share capital			
Authorized 5,000,000 common shares			
Issued and outstanding 1,996,638 common shares	1,997	1,997	1,997
Retained earnings	44,009	39,158	34,750
Total shareholders' equity	46,006	41,155	36,747
	$74,689	$62,348	$55,005

On behalf of the Board

H. Ian Macdonald, O.C., LL.D., Director

John D. Dill, Director

(See accompanying notes to financial statements.)

Statements of Income and Retained Earnings

(In Thousands of Dollars except Per Share Data)

Years ended December 31	1999	1998	1997
Revenue			
Sales, less returns	$75,992	$66,732	$60,920
Other	1,399	1,624	963
	77,391	68,356	61,883
Expenses			
Operating (note 2)	38,206	33,616	29,670
Editorial, selling, general and administrative	25,486	21,492	19,331
Amortization (note 7)	3,513	3,501	4,398
Foreign exchange loss (gain)	(429)	250	579
Interest	148	140	94
	66,924	58,999	54,072
Income before income taxes	10,467	9,357	7,811
Provision for (recovery of) income taxes (note 5)			
Current	5,234	4,764	4,415
Deferred	(616)	(614)	(1,052)
	4,618	4,150	3,363
Net income for the year	5,849	5,207	4,448
Net income per share	$2.93	$2.61	$2.23
Retained Earnings			
Retained earnings, beginning of year	$39,158	$34,750	$30,701
Net income for the year	5,849	5,207	4,448
Dividends paid to shareholders (1999—$0.50 per share; 1998—$0.40 per share; 1997—$0.20 per share)	(998)	(799)	(399)
Retained earnings, end of year	$44,009	$39,158	$34,750

(See accompanying notes to financial statements.)

Statements of Cash Flow

(In Thousands of Dollars)

Years ended December 31	1999	1998	1997
Operating Activities			
Net income for the year	$5,849	$5,207	$4,448
Add (deduct) non-cash items			
Amortization	3,513	3,501	4,398
Deferred income taxes	(616)	(614)	(1,052)
	8,746	8,094	7,794
Net change in non-cash working capital balances related to operations	3,566	(789)	(2,404)
Cash provided by operating activities	12,312	7,305	5,390
Investing Activities			
Prepublication costs	(2,474)	(1,537)	(1,526)
Additions to capital assets	(968)	(541)	(1,046)
Cash used in investing activities	(3,442)	(2,078)	(2,572)
Financing Activities			
Dividends paid to shareholders	(998)	(799)	(399)
Cash used in financing activities	(998)	(799)	(399)
Net increase in cash during the year	7,872	4,428	2,419
Cash, beginning of year	8,381	3,953	1,534
Cash, end of year	$16,253	$8,381	$3,953
Supplemental Cash Flow Information			
Interest paid	136	131	86
Income taxes paid	4,322	4,581	4,052

(See accompanying notes to financial statements.)

Notes to Financial Statements

(Tabular Amounts are in Thousands of Dollars)

1. Summary of Significant Accounting Policies

The accompanying financial statements of McGraw-Hill Ryerson Limited (the "Company") have been prepared in accordance with generally accepted accounting principles. The most significant accounting policies are as follows:

Inventories

Inventories are stated at the lower of cost, on a first-in, first-out basis, and net realizable value.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Building	2-1/2%
Computer equipment	20% to 33-1/3%
Furniture, fixtures and equipment	10% to 20%

Prepublication costs

Prepublication costs include direct labour, preparation, and plate costs, which are amortized from the year of copyright over the lesser of 4 years and the expected sales life of the related publication.

Contracts, copyrights, trademarks, agency rights and goodwill

Costs of contracts, copyrights, trademarks, agency rights, and goodwill are being amortized over the lesser of their useful lives or 40 years. The Company periodically reviews the carrying value of goodwill to determine if any impairment exists based upon projected, undiscounted net cash flows of the related operations.

Foreign exchange translation

Foreign cash balances and amounts receivable from or payable to foreign affiliates are translated into Canadian dollars at the rates of exchange prevailing at the year end. Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates at the date of the transactions. Any resulting gains or losses are included in net income for the year.

Book returns

The Company accepts the return of books from its customers in accordance with normal trade practice and accrues an estimate for anticipated returns in its accounts.

Pension costs

The Company has a defined contribution pension plan for all employees for which the Company's contributions are expensed as incurred.

Income taxes

The Company follows the deferral method of income tax allocation. Deferred income taxes result primarily from claiming certain deductions for income tax purposes prior to expensing them in the accounts.

2. Related Party Transactions

The Company is a subsidiary of The McGraw-Hill Companies, Inc., which owns 70.1% of the outstanding common shares. Under long-standing arrangements, the Company, in the normal course of business, purchases books and educational materials from the parent company and various international subsidiaries of The McGraw-Hill Companies, Inc. These purchases are recorded at their exchange amounts. Terms of payment vary from 10 days with cash discount to 180 days, net from transaction date, and are non-interest bearing.

Accounts with related parties are summarized as follows:

	1999	1998	1997
Due from affiliated companies			
Parent	$1,612	$2,346	$2,954
Common-controlled enterprises	1,082	2,215	398
	$2,694	$4,561	$3,352
Due to affiliated companies			
Parent	$16,243	$11,565	$ 7,663
Common-controlled enterprises	97	89	19
	$16,340	$11,654	$ 7,682

Related party transactions are summarized as follows:

	1999	1998	1997
Purchases			
Parent	$32,877	$26,912	$29,732
Common-controlled enterprises	105	69	77

3. Capital Assets

Capital assets consist of the following:

	1999			1998			1997		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	$ 3,598	$ —	$ 3,598	$ 3,598	$ —	$ 3,598	$ 3,598	$ —	$ 3,598
Building	17,656	3,712	13,944	17,656	3,281	14,375	17,656	2,851	14,805
Computer equipment	2,440	1,645	795	2,284	1,719	565	2,887	2,010	877
Furniture, fixtures and equipment	4,400	2,946	1,454	4,162	2,565	1,597	4,553	2,783	1,770
	$28,094	$ 8,303	$19,791	$27,700	$ 7,565	$20,135	$28,694	$ 7,644	$21,050

4. Other Assets

Other assets consist of the following:

	1999			1998			1997		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Prepublication costs	$ 9,701	$ 7,561	$ 2,140	$ 8,968	$7,115	$1,853	$ 9,695	$7,348	$2,347
Contracts, copyrights, trademarks, agency rights, and goodwill	540	122	418	540	108	432	540	94	446
	$10,241	$7,683	$2,558	$ 9,508	$7,223	$2,285	$10,235	$7,442	$2,793

5. Income Taxes

The components of the Company's effective income tax rate are as follows:

	1999	1998	1997
	%	%	%
Combined basic income tax rate	44.6	44.6	44.6
Increase (decrease) in income taxes resulting from			
Manufacturing and processing profits deduction	(2.7)	(2.7)	(3.0)
Other	2.2	2.5	1.4
Effective income tax rate	44.1	44.4	43.0

6. Lease Commitments

The Company has entered into operating leases, primarily for equipment, for which the estimated future minimum annual payments are as follows:

2000	$ 436
2001	292
2002	65
	$ 793

7. Amortization

Amortization consists of the following:

	1999	1998	1997
Capital assets	$1,312	$1,456	$1,637
Prepublication costs	2,187	2,031	2,748
Contracts, copyrights, trademarks, agency rights, and goodwill	14	14	13
	$3,513	$3,501	$4,398

8. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, amounts due from/to affiliated companies, accounts payable and accrued charges and income taxes payable. At December 31, 1999, the fair value of the Company's financial instruments approximated their carrying value, due to the short-term maturity of these instruments. The Company's five largest customers make up approximately 49% (1998 – 36%)(1997 – 23%) of the accounts receivable balance and approximately 20% (1998 – 20%)(1997 – 8%) of the net sales.

9. Segmented Disclosure

The Company is structured on a market-focus basis and operates in three primary market areas: post-secondary education, including universities and community colleges ("Higher Education"); secondary and elementary schools and proprietary colleges ("School"); and trade, professional and medical, including retailers, distributors, libraries, non-traditional booksellers, direct marketing and the medical sector ("Trade, Professional and Medical").

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

	1999					1998				
	Higher Education	School	Trade Professional and Medical	Warehouse Fulfillment and Support	Total	Higher Education	School	Trade Professional and Medical	Warehouse Fulfillment and Support	Total
Sales, less returns	$35,494	$21,582	$18,916	$ —	$75,992	$33,593	$18,682	$14,457	$ —	$66,732
Amortization	1,497	874	40	1,102	3,513	1,438	773	48	1,242	3,501
Provision for income taxes	—	—	—	4,618	4,618	—	—	—	4,150	4,150
Divisional contribution (loss)	7,433	6,565	3,091	(11,240)	5,849	8,714	5,891	1,988	(11,386)	5,207
Total expenditures for additions to capital assets and goodwill	277	93	43	555	968	75	33	79	354	541
Segment assets	16,497	8,100	12,095	17,079	53,771	14,282	5,679	8,052	19,157	47,170

Reconciliations

Segment Assets

	1999	1998	1997
Segment assets	$53,771	$47,170	$45,575
Unallocated assets			
Cash	16,253	8,381	3,953
Due from affiliated companies	2,694	4,561	3,352
Non-divisional prepaid expenses and other	308	544	419
Deferred income taxes	1,245	1,260	1,260
Contracts, copyrights, trademarks, agency rights, and goodwill	418	432	446
Total assets	$74,689	$62,348	$55,005

10. Comparative Financial Statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 1999 financial statements.

11. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations.

Selected Financial Data

The following selected financial data of the Company, as it relates to the eight years ended December 31, 1999, is derived from the audited financial statements of the company.

Comparative Statement of Income (000s)

Years ended December 31	**1999**	1998	1997	1996	1995	1994	1993	1992
Revenue	**$77,391**	$68,356	$61,883	$44,163	$38,544	$38,281	$37,881	$40,691
Expenses	**66,924**	58,999	54,072	41,154	36,450	38,237	36,594	38,385
Income Taxes	**4,618**	4,150	3,363	1,392	472	18	553	1,017
Income from continuing operations	**$5,849**	$5,207	$4,448	$1,617	$1,622	$26	$734	$1,255
Income from continuing operations per share	**$2.93**	$2.61	$2.23	$0.81	$0.81	$0.02	$0.37	$0.63
Loss from discontinued operations net of tax	—	—	—	—	—	$(7,345)	$(1,145)	$(671)
Net income (loss)	**$5,849**	$5,207	$4,448	$1,617	$1,622	$($7,319)	$(411)	$584
Net income (loss) per share	**$2.93**	$2.61	$2.23	$0.81	$0.81	$(3.67)	$(0.21)	$0.29
Dividends paid per share	**$0.50**	$0.40	$0.20	$0.20	$0.20	$0.15	$0.60	$0.60

Balance Sheet Data

Total Assets	**$74,689**	$62,348	$55,005	$55,103	$48,176	$50,843	$58,341	$56,752

The following table illustrates comparative results for the four quarters of 1998 and 1997.

Quarterly Income Statement ($000)

	Quarter Ended March 31			Quarter Ended June 30			Quarter Ended Sept. 30			Quarter Ended Dec. 31			Full Year		
	1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997	**1999**	1998	1997	**1999**	1998	1997
Total Revenue	**9,289**	7,128	7,858	**14,005**	12,576	11,968	**32,114**	29,181	25,188	**21,983**	19,471	16,869	**77,391**	68,356	61,883
Net Income (Loss) for the period	**(223)**	(425)	(507)	**243**	427	429	**4,511**	3,751	3,137	**1,317**	1,454	1,389	**5,848**	5,207	4,448
Net Income (Loss) per share	**(0.11)**	(0.21)	(0.25)	**0.12**	0.21	0.22	**2.26**	1.88	1.57	**0.66**	0.73	0.69	**2.93**	2.61	2.23

President Club Awards

The Norma Christensen Editorial Excellence Award

Selection Criteria:

The person or team who best embodies

- The drive and perseverance to create great product with success in the marketplace.
- An uncompromising commitment to quality.
- The highest editorial standards.

AWARD: $1,000

1999 Winner — The Sciencepower Ontario 7–9 Student Text Team: Linda Allison, Gerry DeIullis, Jacqueline Donovan, Jenna Dunlop, Lois Edwards, Sheila Fletcher, Tom Gamblin, Dan Kozlovic, Nancy Landry, Jane McNulty, Trudy Rising, School Division; and Nicla Dattolico, Brad Madill, and Yolanda Pigden, Editorial, Design, and Production Department.

The Seary Award for Outstanding Sales

Selection Criteria:

- Sales success in meeting and exceeding the annual sales target.
- Tenacity in the pursuit of meeting customer needs.
- Working as an outstanding team player to keep their division successful.
- Dedication to the culture of McGraw-Hill Ryerson.
- Unfailing good humour.

AWARD: $1,000

1999 Winner — Jason Crawford and Lawrence Hourihan, Trade, Professional and Medical Division

The Heather Somerville Marketing Excellence Award

Selection Criteria:

The person or team who

- Develops, plans, and executes a successful marketing effort.
- Demonstrates initiative, creativity, perseverance, and competitive drive.

AWARD: $1,000

1999 Winner — Joe Saundercook, Higher Education Division

The Theresa Courneyea Outstanding Service Award

Selection Criteria:

- The person or team that demonstrates the commitment to quality, teamwork, and creativity in meeting and exceeding the needs of customers.

AWARD: $1,000

1999 Winner — Chris Li, Information and Systems Technology Department.

Employee Recognition Awards

Throughout the year, there were 60 Employee Recognition Awards presented to employees who made a significant contribution to the Company and are recommended to management by anyone in the Company. Award: $100.00 Also, an additional ten special Employee Recognition Awards were presented in 1999. Award: $1,000.00

Scholarships

The Pat Vidler Scholarship was presented to six very deserving children of employees in 1999. They were:

KRYSTAL HESKETH, daughter of Sue Penny, Production Coordinator, Editorial, Design, and Production Department. Krystal is studying General Arts and Science at Durham College of Applied Arts and Technology. She hopes to be a Counsellor when she finishes school.

MARK LANDMESSER, son of Adele Landmesser, Personnel Assistant, Human Resources Department. Mark attends Durham College of Applied Arts and Technology and is in a two-year Auto Mechanics course. After a three-year apprenticeship, he will be able to obtain his license to be a Registered Auto Mechanic.

VALERIE LUSCOMBE, daughter of Marlene Luscombe, Executive Assistant, Higher Education Division. Valerie attends Durham College of Applied Arts and Technology and is in the Office Administration course. She is planning on majoring in Legal Administration and her ultimate working goal is Law.

ADAM PAVLAKOVICH, son of Nancy Pavlakovich, Manager, Human Resources Department. Adam attends Ryerson Polytechnic University and his major is Information Technology. His ultimate career goal is to work on a consulting basis assisting clients with their information processing and e-commerce initiatives, marketing and selling on the Internet.

DON ST. ONGE, son of Pierrette St. Onge, Supervisor, Warehouse. Don attends the University of Ottawa and is preparing for his Bachelor's degree in Education. He will be teaching in the French or Immersion school system, secondary level. He is majoring in Physical education with a minor in Biology.

MARC ST. ONGE, also the son of Pierrette St. Onge, is attending Sir Sandford Fleming College, Frost Campus. He is studying Natural Resources Law Enforcement and hopes to become a Conservation Officer, informally known as a Game Warden.

Directors
(as at April 13, 2000)

Robert J. Bahash (1988)
Executive Vice President
Chief Financial Officer
The McGraw-Hill Companies, Inc.
New York

James G. Barnes (1988)
Professor of Marketing
Memorial University of Newfoundland
St. John's

Penelope S. Bonner (1990)
Partner
Osler, Hoskin & Harcourt
Barristers & Solicitors
Toronto

John D. Dill (1993)
President and Chief Executive Officer
McGraw-Hill Ryerson Limited
Whitby

Robert E. Evanson (1998)
President
Educational and Professional Publishing Group
The McGraw-Hill Companies, Inc.
New York

H. Ian Macdonald, O.C., LL.D. (1985)
President Emeritus and Professor
York University
Toronto

John D. Negroponte (1999)
Executive Vice President
Global Markets
The McGraw-Hill Companies, Inc.,
New York

Manon R. Vennat, O.C. (1988)
Chairman and Managing Director
SpencerStuart
Montreal

Officers
(as at April 13, 2000)

H. Ian Macdonald, O.C, LL.D.
Chairman of the Board (1996)

John D. Dill
President and Chief
Executive Officer (1993)

Gary A. Krikler
Executive Vice President, Chief Financial Officer
and Secretary-Treasurer (1994)

Petra M. Cooper
President (1997)
Higher Education Division

Nancy L. Gerrish
President (1999)
School Division

Marshall I. Morris
Executive Vice President (1996)

Carl Posluns
Executive Vice President (1994)

Clive G. Powell
Executive Vice President (1997)

Julia O. Woods
President (1994)
Trade, Professional and
Medical Division

[illegible] Front Row: [illegible] M. Cooper. Middle Row: Julia O. Woods, Carl Posluns, John D. Dill, Marshall I. Morris Back Row: Clive G. Powell, Gary A. [illegible]

Shareholder and Corporate Information

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Secretary-Treasurer
Telephone: (905) 430-5032

Annual and Special Meeting of Shareholders

Kensington Room
Le Royal Meridien King Edward Hotel
Toronto, Ontario
Tuesday, June 13, 2000
at 11:00 a.m.

Exchange Listings

The Toronto Stock Exchange
Stock Symbol: MHR

General Counsel

Osler, Hoskin & Harcourt
Barristers & Solicitors
Toronto

Auditors

Ernst & Young LLP
Chartered Accountants
Toronto

Bankers

The Bank of Nova Scotia

Registrar and Transfer Agent

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McGraw-Hill Ryerson's 1999 Corporate Contribution Programs

McGraw-Hill Ryerson Limited believes Canadians will flourish in communities that are healthy, well educated, culturally rich, and socially secure. The Company will support programs that increase the abilities of people in our communities to learn, to grow intellectually, to master new skills, and to maximize their individual talents for school, work, and community.

Matching Gift Program

The Company will match any employee's financial gift to any non-profit Canadian organization that supports education, learning, and literacy up to a maximum of $2,000 per employee per year (including the United Way matching contributions). In 1999, the Company matched five employee gifts for a total of $490.

United Way Program

McGraw-Hill Ryerson will match any employee's United Way contribution. When an employee contributes a day's pay to the United Way, he/she may take a paid day off work to perform volunteer work to support the activities of any non-profit organization or a worthy project in the community. In 1999, the Company matched employee contributions of $6,684.00.

Employee Volunteer Support Program

When an employee participates, on a regular basis, for a year or more, in a qualified program of volunteer support through schools and non-profit organizations (education, health or fitness, and social services) and has an ongoing commitment of at least fifty hours a year, McGraw-Hill Ryerson will support the program with a $300 contribution. In 1999, the Company supported five organizations for a total of $1,500.

Focused Support

Council for Canadian Unity	$2,500
Foundation de la Chenelière	$1,000
The Commonwealth of Learning	$2,000
Breakfast for Learning	$2,000
Durham International Centre for Quality (Voice to Text Pilot/ Durham School Board)	$3,000

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